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PM/80/37

PRIME MINISTER

Community Budget: The Next Steps

1. We have only six weeks to go to the Venice meeting of the European Council. We need to decide quickly on the next steps both on substance and procedure.
2. I believe that there is still a reasonable chance of getting the sort of settlement we want by, if not before, the June Council. Our leverage on agricultural prices gives us continuing bargaining strength, but may be a wasting asset: the longer the delay, the stronger the pressures on our partners to look for means of implementing the agricultural price settlement without us. I think therefore that we should not lose much time in pressing ahead, basing ourselves on the closeness we came to agreement in Luxembourg, in pursuit of a settlement, perhaps even in the Council of Ministers before the next meeting of the European Council.
3. The Council of Ministers is next due to meet on 5th and 6th May. Signor Ruggiero has been urging us to take advantage of that opportunity, but in my view that is too soon. In any case I cannot be at the meeting, because I shall be in Washington; and I gather Genscher cannot be there either.
4. If we are to succeed at a meeting of the Council of Ministers before 12th June, or at the European Council on that date, a further round of bilateral preparation will be needed. The object should be to arrive at a solution on all the outstanding questions that can be put to the Council as a proposal by the Presidency, with reasonable assurance that it will be acceptable to all the partners. We cannot leave all this preparation to the Presidency, and we must be active ourselves; but we must work in conjunction with Cossiga and retain his and Colombo's goodwill, which will be important to us.

/Substance

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Michael - we must have a word about this? early to-morrow. I am so horrified with the approach that I think it would be better if we didn't have the meeting. I feel as if we FCO is going to cancel out all my own efforts in T.I.

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Substance

5. For the purposes of the preparation we shall need to give our partners a pretty clear indication of the basis on which we should be prepared to settle the main issues under discussion. I suggest that this should be as follows:

I. The Budget

I think that we should be prepared to contemplate and discuss two outcomes: one based on your own proposal and the other on President Giscard's. Thus the first ought to be:

- (i) a ceiling on the United Kingdom net contribution for 1980, 1981 and 1982; 538 meua in 1980, increasing by the same percentage as the increase in the Community budget for the two succeeding years (that would give us an incentive to press for economies in the Community budget); and a provision for a further review in 1982 in order to prevent the emergence of an unacceptable situation.

And the second might be:

- (ii) our net contribution in 1980 to be 538 meua; an immediate review which will cover limits to the net benefits of the above-average GNP countries as well as the net contribution of the United Kingdom; a guarantee that, in the event of failure to agree by 31 December 1981, our net contribution in 1981 should not exceed a certain figure (which would have to be within the range of the 538 meua increased pro rata with the size of the budget and 800 meua which was on offer, and therefore somewhere between 675 and 775 meua); and an acceptable commitment to a further review if necessary to prevent the emergence of an unacceptable situation.

I think it follows from our position at Luxembourg that, provided the other elements are right, we could accept a solution on either of these lines.

II. CAP Prices

We shall have to accept the package agreed in Luxembourg on 28th April, if we get satisfactory outcomes on the other issues.

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III. Sheepmeat

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The other seven will accept anything we and the French agree. We shall have to discuss this bilaterally with the French. We should be ready to accept limited seasonal intervention, but without export rebates; and we should insist on premiums which give some benefit to British as well as French sheep farmers.

IV. Fisheries

We should try for a commitment in very general terms to conclude negotiations by the end of the year. We shall probably not be able to avoid some detail, on the lines of the document discussed in Luxembourg, but if we are to go along with that we must find a satisfactory form of words to protect our position on access which does not deny our treaty obligations.

Procedure

6. We shall need a first round of bilateral contacts at senior official level. That may need to be followed up by Ministerial bilaterals, at any rate in Rome, Paris and Bonn.

7. Our first contact should be with the Italians, as the Presidency, to explain both what we seek to achieve and how we propose, with their help, to carry matters forward. The Lord Privy Seal will see Colombo and Mr Franklin will see Ruggiero at the Council of Ministers on 5th and 6th May, but I think that there should also be a mission to Rome to see Berlinguer, Cossiga's Chief of Staff, and perhaps even Cossiga himself, if he is available.

8. The next contact should be in Paris. I think this should be Sir Robert Armstrong and Mr Franklin with Monsieur Wahl.

9. At more or less the same time there should be a contact in Bonn; I suggest by Lord Bridges and Mr Franklin.

10. Our Permanent Representative should be briefed to keep the Commission informed of our intentions and objectives during this phase, stressing that we are working towards a situation in which the Presidency can circulate a proposal to the Council of Ministers.

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11. We must not forget the smaller countries, particularly the Dutch; but we should decide about contacts with them in the light of the first contacts with the Italians, French and Germans.
12. We may well need a second round of Ministerial contacts, at least with the Italians, French and Germans. I should propose to conduct these myself, with my opposite numbers, though I should hope - at any rate in Paris and Bonn - to have a chance of a private discussion also with President Giscard and Chancellor Schmidt.
13. There is a meeting of the Agriculture Council on 5th and 6th May. It would be preferable that this should be postponed, but I see no possibility of the others being willing to postpone it. I suggest that the Minister of Agriculture should not seek to prevent further discussion and refinement of the package agreed at Luxembourg - he may even be able to improve it - but he will clearly not be able to agree to it on that occasion.
14. To sum up, I think we should play the four Council meetings during the next two weeks, during which we shall be engaged in bilateral discussions, as follows:
- (i) Foreign Affairs (5th and 6th May). A fence-mending operation, designed to show that progress can and should be made in the period before the Venice European Council, and that we are ready to carry discussions forward in any forum the Presidency choose to name.
 - (ii) Finance (12th May). Possibly invite Commission to submit drafts of amended Financial Mechanism and Article 235 Regulation. Avoid any decisions on the 1980 budget other than stop gap measures necessary to protect our receipts.
 - (iii) Agriculture (5th and 6th May). As above: while maintaining our reservations on the documents on prices and sheepmeat agreed by other Member States on 27th April in Luxembourg, participate in detailed work on that basis to ensure that specific British interests are fully protected.
 - (iv) Energy (13th May). Concentrate work on preparing Community position for Venice Economic Summit, avoiding, so far as possible, contentious issues. Take positive but non-committal attitude towards Commission paper.

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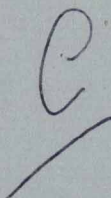
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15. I think that this programme gives us a chance of allowing the immediate frustrations of Luxembourg to begin to dissipate themselves; building on the near agreement there and keeping up a momentum which demonstrates our continuing readiness and will to reach satisfactory agreements on all the issues; and either concluding a settlement at the Council of Ministers at the beginning of June or, failing that, getting to a point where there are only a small number of specific points for the European Council to resolve at Venice.

16. I have considered whether you should send messages to Cossiga, Giscard and Schmidt, or to any of them, before we embark upon the process I have proposed. On the whole I think we should not send messages to Giscard or Schmidt while we are able to make progress at this stage without writing to them directly, and we should keep the possibility of messages from you in reserve in case we need them later on. But I think that it would be useful for you to send a message to Cossiga to thank him for all he did and tried to do at Luxembourg, to enlist his goodwill - which we know is available - for continuing to work as hard as we can for an early settlement, and to stress that we shall keep in closest touch with him and his officials on the handling of these matters in the coming weeks.

/ I attach a draft accordingly.

17. I am sending copies of this minute to the Chancellor of the Exchequer and to Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office

1 May 1980

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DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: PRIME MINISTER

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: SIGNOR COSSIGA

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I am most grateful to you for all the effort you personally put into achieving an agreed solution to the Community budget problem in the run-up to and at the European Council meeting in Luxembourg. Without the Presidency we would not have even got as close to a solution as we did.

Like you, I am disappointed that success eluded us on this occasion. But I do think a substantial narrowing of the differences between us was achieved and that a solution could be in sight by the time we next meet in Venice on 12 June. I certainly shall be working to bring this about. ~~(and I think it is in all our interests that these divisive matters should not drag on unresolved beyond that meeting. If they were to do so, that would be a very serious situation indeed.)~~

I continue to attach the greatest importance to the role of the Presidency and of you yourself. Ian Gilmour will no doubt be able to talk to your Foreign Minister in the margins of the Foreign Affairs Council in Brussels on 5-6 May, and our officials will also be in touch with yours to discuss the way ahead.

Enclosures—flag(s).....

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